

EXECUTIVE DIGEST

CHARTER SCHOOLS OFFICE AND MICHIGAN RESOURCE CENTER FOR CHARTER SCHOOLS

INTRODUCTION

This report, issued in October 1997, contains the results of our performance audit* of Central Michigan University's Charter Schools Office (CSO) and Michigan Resource Center for Charter Schools (MRCCS).

AUDIT PURPOSE

This performance audit was conducted as part of the constitutional responsibility of the Office of the Auditor General. Performance audits are conducted on a priority basis related to the potential for improving effectiveness* and efficiency*.

In addition, the Office of the Auditor General conducted this performance audit to address a legislative concern as to whether the University's CSO provided effective oversight of the public school academies* (PSA's) that the University Board of Trustees had authorized*.

This performance audit also included the University's MRCCS because of its relevance to CSO activities.

BACKGROUND

PSA's, commonly referred to as charter schools, are public schools that are authorized and operated under terms of a contract. In December 1993, Michigan first passed PSA legislation. Michigan's PSA law (Part 6A of the Revised School Code) was repealed. A subsequent PSA law (Part 6B of the Revised School Code) was enacted and later amended. At the time of our audit, all PSA's chartered* by the University Board of Trustees operated under Parts 6A

and 6B. In July 1997, the Michigan Supreme Court ruled that Part 6A was constitutional. This ruling resulted in repealing Part 6B.

Act 289, P.A. 1995, imposed a cap that limits Michigan's 15 public universities to 85 PSA charters for 1996 and 100 PSA charters for 1997. A single university is limited to authorizing not more than 50% of the total PSA's starting in 1997.

As of May 31, 1997, there were 78 PSA's operating in Michigan. For the 1996-97 academic year, these PSA's enrolled 12,698 full-time equated (FTE) students and received \$71,172,084 in State school aid*.

Central Michigan University's Board of Trustees is the authorizing body for 40 of the 78 PSA's in Michigan. For the 1996-97 academic year, these 40 PSA's enrolled 7,416 FTE students and received \$41,763,478 in State school aid. (See Exhibits 1 through 3 for supplemental information related to the number of PSA's by authorizing body, student enrollment and State school aid by authorizing body, and other PSA statistics.)

The University's CSO was established in July 1994. The CSO's mission* states that the University aims to be a vital force in redefining and restructuring public education in America by working to create an innovative and diverse educational marketplace in Michigan that will more effectively prepare the children in this State to seize the opportunities of the 21st century.

CSO fiscal year 1995-96 revenues and expenditures were \$562,868 and \$814,657, respectively. As of May 31, 1997, CSO had 8 full-time employees, 1 part-time employee, 13 part-time temporary employees, and 3 student interns.

The University established MRCCS, which became operational in January 1996. MRCCS is to serve as a resource for and to provide technical assistance to prospective authorizing bodies, the Department of Education, and individuals on establishing and operating a PSA. Act 154, P.A. 1995, provided \$500,000 to MRCCS for fiscal year 1995-96 funding. Act 295, P.A. 1996, includes MRCCS fiscal year 1996-97 funding within the University's general operations.

MRCCS's mission is to support Michigan PSA's by providing specialists from various disciplines, maintaining a collection of educational resource materials, and establishing a data base of State and national information for monitoring PSA activities. Services and information provided by MRCCS are available to anyone interested in PSA's.

MRCCS's fiscal year 1995-96 expenditures were \$222,115. The remaining amount of the appropriation, \$277,885, was to be used in fiscal year 1996-97. As of May 31, 1997, MRCCS had 3 full-time employees, 2 full-time temporary employees, and 1 student intern.

AUDIT OBJECTIVES,
CONCLUSIONS, AND
NOTEWORTHY
ACCOMPLISHMENTS

Audit Objective: To assess the effectiveness and efficiency of CSO in authorizing PSA charters.

Conclusion: We concluded that CSO was generally effective and efficient in authorizing PSA charters.

However, we noted a reportable condition* related to the PSA application process (Finding 1).

Noteworthy Accomplishments: As part of CSO's application process for prospective PSA's, CSO contracted with the Gratiot Isabella Regional Education Service

District and utilized University faculty to provide reviews of applicant educational goals.

CSO encourages prospective applicants to be creative and innovative in meeting the diverse needs of their students. Examples of some curriculum focuses of PSA's that are chartered by the University Board of Trustees include history and culture, arts and sciences, trade/technical, technology, back-to-basics, and foreign language.

The University has made local, regional, and national charter school presentations, including a presentation to the United States House of Representatives Education Workforce Committee.

Audit Objective: To assess the effectiveness and efficiency of CSO in monitoring PSA's.

Conclusion: We concluded that CSO had demonstrated limited effectiveness and efficiency in monitoring PSA's. We noted the following six material conditions*:

- CSO needs to coordinate with other entities to improve its oversight of PSA's (Finding 2).

CSO responded that it agrees with the corresponding recommendation and continues to believe that the scope and extent of an authorizing body's oversight of PSA's should be defined. CSO will continue its efforts to improve oversight.

- CSO needs to substantially improve its internal control structure* for monitoring PSA's (Finding 3).

CSO responded that it agrees with the corresponding recommendation and has dedicated additional personnel in implementing improvements.

- CSO needs to improve monitoring of PSA boards of directors for potential conflicts of interest (Finding 4).

CSO responded that it agrees with the corresponding recommendation and is taking action to improve its monitoring of PSA boards of directors.

- CSO did not follow up on some items of noncompliance related to PSA board activities. Also, CSO either did not obtain or did not obtain on a timely basis some PSA board minutes. (Finding 5)

CSO responded that it agrees with the corresponding recommendations and has established a data base to assist in monitoring whether board minutes are received timely, and it will establish a process to review minutes for items of noncompliance.

- CSO did not sufficiently monitor PSA student application periods and enrollment lotteries (Finding 6).

CSO responded that it agrees with the corresponding recommendation and will develop appropriate forms and procedures for PSA's to use in documenting the proper administration of student enrollments.

- CSO did not sufficiently monitor development of PSA school policies (Finding 7).

CSO responded that it agrees with the corresponding recommendation and will improve the process for monitoring the development of PSA school policies.

We noted other reportable conditions related to oaths of office and acceptances of public office (Finding 8), PSA

procurement policies (Finding 9), regional representatives' activities (Finding 10), and coordinating regional representatives' activities (Finding 11).

Noteworthy Accomplishments: CSO created a data base to assist in monitoring PSA compliance with the contract and applicable laws. The data base includes general information and information related to regional representative visitations, PSA legal counsel, contract amendments, financial audits, State school aid payments, and PSA board activities.

Audit Objective: To assess the effectiveness and efficiency of CSO in monitoring compliance with reporting requirements for PSA's.

Conclusion: We concluded that CSO had demonstrated limited effectiveness and efficiency in monitoring compliance with reporting requirements for PSA's. We noted the following three material conditions:

- CSO did not review PSA certificates of continuing compliance, in conjunction with other CSO monitoring data, to determine that it had a sufficient basis for relying on the certificates as filed. Also, because of CSO's lack of internal coordination regarding other monitoring data, CSO did not take corrective action with PSA's that filed inaccurate certificates. Further, CSO did not obtain some certificates on a timely basis. (Finding 12)

CSO responded that it agrees with the corresponding recommendations and is reevaluating the format of the certificates and has developed a data base to assist in determining when certificates are received.

- CSO did not develop written instructions to aid regional representatives with completion of compliance checklist and inspection reports. Also, CSO did not ensure that reports were prepared consistently. (Finding 13)

CSO responded that it agrees with the corresponding recommendations that written instructions should be developed which will assist in consistent completion of the reports.

- CSO did not ensure that PSA's complied with requirements related to financial statement reporting and operating budgets (Finding 14).

CSO responded that it agrees with the corresponding recommendation and is in the process of

implementing review procedures for PSA financial statements and operating budgets.

We also noted a reportable condition related to CSO reporting to PSA's (Finding 15).

Noteworthy Accomplishments: CSO works with the State Department of Education, including its Office of Charter Schools director, intermediate school district officials, and other authorizing bodies to monitor and assist PSA's with reporting requirements.

Audit Objective: To assess the effectiveness and efficiency of MRCCS in maintaining information on and providing assistance to users interested in PSA's.

Conclusion: We concluded that MRCCS was effective and efficient in maintaining information on and providing assistance to users interested in PSA activities.

Noteworthy Accomplishments: MRCCS sponsors workshops, seminars, round tables, and the annual Michigan Charter School Exposition. These events provide PSA networking opportunities, technical assistance, and education about charter school programs. Since 1995, MRCCS has had a web page that provides immediate access to charter information.

AUDIT SCOPE

Our audit scope was to examine the program and other records of Central Michigan University's Charter Schools Office and Michigan Resource Center for Charter Schools. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Our ability to achieve our audit objectives relating to CSO, in accordance with *Government Auditing Standards*, was impeded by the University's assertion of attorney/client privilege for 43 records. Although the University later removed this designation for 9 of these records, it retained the designation for 34 records. Not having seen the records for which the University maintained the claim of attorney/client privilege, we could not assess if they would affect the conclusions of this audit.

SUBSEQUENT EVENT

During our audit fieldwork, the constitutionality of Part 6A of the Revised School Code (the original PSA law) was being challenged. At that time, a subsequent PSA law, being Part 6B of the Revised School Code, was in effect. Thus, our audit was performed based on the requirements of the law that was in effect during our fieldwork.

On July 30, 1997, after completion of our audit fieldwork, the Michigan Supreme Court ruled that Part 6A of the

Revised School Code was constitutional. This ruling resulted in repealing Part 6B of the Revised School Code.

ISSUES FOR FURTHER CONSIDERATION OR FOLLOW-UP	We noted issues during this audit that are relevant to PSA's but were either broader in scope than our audit objectives for the audit of CSO or required more data for analysis than was available at the time of our audit. These items will be considered for inclusion in future performance audits. Also, we will conduct a follow-up review of material conditions contained in this report at a later date.
AUDIT METHODOLOGY	To accomplish our objectives, we interviewed University, Department of Education, intermediate school district, and PSA personnel. We analyzed mission statements and applicable statutes, policies, and procedures. We examined CSO records for 13 PSA's for the period July 1, 1994 through November 30, 1996 and conducted site visits at 10 PSA's. We obtained an understanding of CSO's PSA application and oversight (monitoring) processes. Also, we examined records for 2 additional PSA's as part of our extended auditing procedures through June 5, 1997. In addition, we analyzed data related to the activities of MRCCS, including types, uses, and level of services provided.
AGENCY RESPONSES	Our audit report includes 15 findings and 19 recommendations. The University's preliminary response indicated that it agreed with 17 of our recommendations and has begun to take steps to implement the recommendations. The University acknowledges the remaining 2 recommendations.